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RUEHKO/AMEMBASSY TOKYO 0873
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RUEATRS/DEPT OF TREASURY WASHDC
RHMFIUU/DEPT OF ENERGY WASHINGTON DC
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UNCLAS SECTION 01 OF 02 JAKARTA 002740

SIPDIS

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DEPT FOR A/S HILL AND EAP/MTS
TREASURY FOR IA-BAUKOL
SINGAPORE FOR BAKER
DEPT PASS USTR FOR DBHATIA AND DKATZ
COMMERCE FOR 4430/GOLIKE
ENERGY FOR A/S HARBERT, CUTLER AND GILLESPIE

E.O. 12598: N/A
TAGS: [ECON](#) [PGOV](#) [EINV](#) [SENV](#) [ID](#)
SUBJECT: U/S Jeffery Visits Sumatra

11. (SBU) Summary. During a September 12 visit to Sumatra, U/S Jeffery visited the Palm Oil Research Center and toured its model biofuel production facility. He also met with the Governor of North Sumatra Rudolf Pardede and his economic team. He took an aerial survey of plantations and the Leuser ecosystem area, and discussed Sumatra's important biodiversity and sustainable development practices with non-governmental organizations. End Summary.

Palm Oil Abundant in Sumatra

12. (U) During his September 12 visit to Sumatra, U/S Jeffery reviewed the challenges in the important biodiversity area of the Leuser Ecosystem with Consul General Sean Stein. Stein noted that two years ago there was 1.2 million hectares of oil palm estates in North Sumatra alone. Because of record palm oil (CPO) prices, however, the amount of oil palm under cultivation has increased rapidly to approximately 1.6 million hectares over the last two years. Riau, Jambi, and South Sumatra provinces have seen similar increases as well.

13. (U) The sky-high CPO prices which have driven producers to plant more oil palm have, in the near term, made bio-diesel production economically unfeasible. Stein said that industry insiders tell him that two conditions are needed for biofuels to be financially viable: high oil prices combined with rock bottom feedstock prices. At the present time, however, international oil prices are nowhere near high enough to for biodiesel production to take off. In the current environment, many producers, Stein added, have shelved plans to build biodiesel plants of their own.

14. (U) In the medium term, biodiesel's prospects are less clear. New oil palm plantations take 3.5 years to begin producing oil. As million of hectares of new oil palm comes on line, the downward pressure on prices may be enough to shift the economics back toward biodiesel production.

15. (U) At the Indonesian Oil Palm Research Institute, U/S Jeffery was told that CPO contributed about 1.5% to GDP in 2004 and comprises 60% of Indonesia's estate crop, creating jobs for 4.8 million families. Sumatra is the best location for oil palm trees and most CPO is exported. Palm oil is not a native to Indonesia. The seeds were imported from Africa in 1848. Mike Griffiths, Coordinator for Conservation and Rehabilitation at the Regional

Agency for the Leuser Ecosystem noted that palm plantations do not bring high quality jobs, but rather minimum wage manual labor.

Palm Oil and Conservation:
Finding the Balance

¶16. (SBU) The Roundtable for Sustainable Palm Oil (RSPO) is an initiative bringing together palm oil producers, buyers, and the NGO community to discuss ways of minimizing the industry's negative impact on the environment. Only three of Indonesia's major palm oil producers are actively taking steps to implement RSPO's vision for sustainable palm oil. Each of those companies has significant American or European ownership. Among the steps these firms are taking is limiting plantations areas to no more than a fixed percent of any ecosystem, not planting on hillsides or river banks, and processing waste and effluents responsibly. These companies also put in wildlife corridors for Sumatra's important species, including the Sumatran tiger, rhino, rare birds, the Sumatran orangutan and many others.

¶17. (U) The Roundtable for Sustainable Palm Oil has made the ethics standards for CPO so high, that only the large companies can comply. The Roundtable requires that no high value conservation forest be cleared and that indigenous peoples have informed consent before any palm plantations are developed. Lowland and peat forests and swamps are among the areas most at risk.

¶18. (U) Dr. Ian Singleton, Director of Conservation at the Sumatran Orangutan Conservation Programme, notes that Southeast Asia has two thirds of the world's peatlands and Indonesia has 56% of Southeast Asia's. ASEAN is developing a strategy for peatland management. However, Sumatra's lowland and peat forests are already almost gone,

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and the existing peat swamps - home to the largest remaining groups of Sumatran orangutan - are threatened. About 7300 orangutans in Sumatra remain in eleven populations which require urgent protection.

¶19. (U) Dr. Singleton's facility, like others in Sumatra and Kalimantan, rescues orangutan who have been injured or captured and prepares them to return to the wild. Their "patients" are almost all refugees from lost habitat. Of the other animals they treat and return to the wild, the majority were captured and kept as pets, usually by members of the military or police, which are supposed to be preventing wildlife trafficking.

Meeting with North Sumatra Governor Pardede

¶10. (SBU) Governor Rudolf Pardede and his economic team welcomed U/S Jeffery, noting that North Sumatra is a diverse province of 12.5 million population comprises of eight ethnic groups following multiple religions: 60% Muslim, 35% Christian and 5% other religions. Palm plantations bring \$2.5 billion in revenue per year and the province's GDP growth rates, at 9%, was higher than the national rate. The Governor noted that 85% of credit in the province goes to corporations. North Sumatra attracts a lot of investors, getting the fifth highest rating for investment climate in the country this year. However, the lack of electricity is a serious problem and another 1,000 megawatts capacity is needed to promote growth. Noting the growth in the plantation sector, the Governor seeks to increase productivity per hectare rather than expanding overall land use.

¶11. (U) U/S Jeffery cleared this cable.

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